

Message Text

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ACTION EA-12

INFO OCT-01 EUR-12 ISO-00 SP-02 ICA-20 AID-05 EB-08
NSC-05 TRSE-00 SS-15 STR-07 OMB-01 CEA-01 CIAE-00
COME-00 FRB-01 INR-10 NSAE-00 XMB-04 OPIC-06
LAB-04 SIL-01 /115 W
-----019180 050910Z /21

P 050854Z JUL 78
FM AMEMBASSY TOKYO
TO SECSTATE WASHDC PRIORITY 9311
TREASURY/DEP WASHDC PRIORITY
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME

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USEEC

USOECN ALSO FOR EMBASSY

E.O. 11625: N/A
TAGS: EFIN, JA
SUBJECT: FINANCIAL AND ECONOMIC DEVELOPMENTS -- JUNE 29-
JULY 5

1. SUMMARY: YEN HITS 200.50. RESERVES DROP \$400 MIL IN
JUNE AS OFFICIAL FOREIGN CURRENCY DEPOSITS WITH FOREX
BANKS RISE \$1,000 MIL. TOKYO CONSUMER PRICES TUMBLE
1.3 PCT IN JUNE. CONSTRUCTION ORDERS CONTINUED STRONG IN
MAY. MONEY MARKETS RECORD MORE FREQUENT RATE ADJUSTMENTS
IN JUNE WHILE LONGER-TERM RATES FIRM. END SUMMARY.

2. THE YEN PUSHED FORWARD TO 200.50 ON WED, JULY 5, PRO-
VOKING COMMENT BUT LESS DISCERNIBLE CONCERN THAN HAVE
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PAST APPRECIATIONS. IN RESPONSE TO THE INEVITABLE PRESS
QUESTIONS, MOST COMMENTATORS, BOTH PUBLIC AND PRIVATE,
HAVE TAKEN THE LINE THAT REDUCTION OF THE JAPANESE SURPLUS
AND THE U.S. DEFICIT ARE REQUIRED IF THE YEN IS TO BE
STABILIZED. A NOTE OF ASPERITY CAN BE DETECTED IN THE
REMARKS OF SOME OFFICIALS. ECONOMIC PLANNING AGENCY
DIRECTOR GENERAL MIYAZAWA REPORTEDLY TOLD THE PRESS THAT

JAPAN'S EFFORTS TO REDUCE ITS SURPLUS HAD BEEN RENDERED NUGATORY BY QUICKENED U.S. INFLATION AND DELAYS IN PASSAGE OF U.S. ENERGY BILL. REFLECTING THE SIGNIFICANCE THAT JAPANESE OFFICIALS HAVE RECENTLY PLACED ON CONTROL OF U.S. INFLATION, THE MINISTRY OF FINANCE (MOF) AND BANK OF JAPAN (BOJ) BOTH RELEASED STATEMENTS WELCOMING THE JUNE 30 MOVE BY THE FEDERAL RESERVE BOARD TO RAISE THE DISCOUNT RATE, PORTRAYING IT AS AN INDICATION OF U.S. DETERMINATION TO CONTROL INFLATION.

3. JAPAN'S OFFICIAL INTERNATIONAL RESERVES DECLINED BY ROUGHLY \$0.4 BIL IN JUNE TO \$27.3 BIL. JUNE DECLINE IN OFFICIAL RESERVES WAS ATTRIBUTED TO AN INCREASE IN OFFICIAL FOREIGN CURRENCY DEPOSITS WITH COMMERCIAL BANKS OF ABOUT \$1.0 BIL, ACCORDING TO PRESS ACCOUNTS CONFIRMED BY MOF OFFICIALS. THIS DEPOSIT INCREASE WAS THE THIRD IN A SERIES FOR THIS YEAR, FOLLOWING THE \$0.5 BIL INCREASE IN MARCH AND THE \$1.5 BIL INCREASE IN APRIL; OUTSTANDING BALANCE OF SUCH DEPOSITS IS ESTIMATED BY THE PRESS TO HAVE REACHED \$7.5 BIL APPROXIMATELY AT END OF JUNE.

4. CONSUMER PRICE INDEX FOR TOKYO, N.S.A., DROPPED 1.3 PCT IN JUNE WITH THE INDEX FOR THE MONTH STANDING AT 123.0. THE JUNE DROP FOLLOWED AN INCREASE OVER THE PRECEDING FIVE MONTHS OF 4.0 PCT. EXCLUDING SEASONAL ITEMS, THE JUNE DECLINE IN TOKYO CPI WAS A SMALLER 0.3 UNCLASSIFIED

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PCT. THE NATIONAL CPI FOR MAY ROSE 0.6 PCT TO 123.2.

5. NEW CONSTRUCTIONS ORDERS, S.A., CONTINUED TO RISE STRONGLY IN MAY, UP 10.8 PCT ON TOP OF THE 12.0 PCT INCREASE IN APRIL. PRIVATE AND PUBLIC SECTORS BOTH RECORDED HEALTHY INCREASES IN MAY.

NEW CONSTRUCTION ORDERS, S.A. (IN BIL YEN; PCT CHANGE FROM PRIOR MONTH IN PAREN):

	GOVT/PUBLIC	PRIVATE	TOTAL
-	(JEI 324)	(JEI 325)	(JEI 323)

MARCH	309.5 (2.5)	263.9 (-10.8)	585.9 (-3.8)
APR (REV)	300.1 (-3.0)	300.6 (13.9)	656.4 (12.0)
MAY	318.3 (6.0)	327.0 (8.8)	727.0 (10.8)

6. CALL MONEY RATES HAVE STARTED TO FLUCTUATE MORE FREQUENTLY RECENTLY REFLECTING BOJ MOVES TO LIBERALIZING INTEREST RATE STRUCTURE. CALL RATES WERE CHANGED SIX TIMES IN JUNE. IN JUNE 1977 THERE WERE ONLY THREE ADJUSTMENTS IN THE CALL RATE. AVERAGE CALL MONEY RATE (JEI 178)

ROSE TO 4.106 PCT PER ANNUM IN JUNE FROM THE 4.060 PCT IN MAY, PRIMARILY REFLECTING SEASONAL UPSWING IN DEMAND FOR FUNDS DUE TO SUMMER BONUS PAYMENTS. BILL DISCOUNT RATE WAS RAISED 0.25 PERCENTAGE POINTS TO 4.75 PCT PER ANNUM, EFFECTIVE JUNE 1, AND THEN REMAINED UNCHANGED THROUGHOUT THE MONTH. FOLLOWING TABLE SHOWS THE CHANGES IN SHORT-TERM MONEY RATES DURING JUNE.

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USEEC

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- CALL RATE BILL DISCOUNT RATE

END OF MAY	4.125	4.5
JUNE 1	4.125	4.75
JUNE 3	4.0	4.75
JUNE 7	3.875	4.75
JUNE 14	4.0	4.75
JUNE 16	4.125	4.75
JUNE 23	4.375	4.75
JUNE 30	4.25	4.75

7. SECONDARY BOND PRICES SOFTENED IN JUNE. BOND YIELDS

HAD REBOUNDED IN MAY AND THIS RISING TREND ACCELERATED IN
JUNE. INSTITUTIONAL INVESTORS ARE REPORTEDLY RELUCTANT
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TO COMMIT THEIR FUNDS TO LONG-TERM SECURITIES SINCE THEY
ARE NOW MORE CONFIDENT OF THE STRENGTH OF ECONOMIC RECOVERY
AND ARE EXPECTING A PICKUP OF PRIVATE DEMAND FOR CREDIT.
THE FALL-OFF IN FOREIGN PURCHASES OF YEN-DENOMINATED
FOREIGN BONDS IS ALSO REPORTED TO HAVE CONTRIBUTED TO
BEARISH MOOD.

SECONDARY MARKET BOND YIELDS, END OF MONTH (ANNUAL RATE IN
PCT):

- GOVT BONDS TELEPHONE AND INDUSTRIAL BONDS
- TELEGRAPH BONDS

APRIL	5.976	6.606	7.082
MAY	6.004	6.587	7.100
JUNE	6.065	6.623	7.247

MANSFIELD

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Message Attributes

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Draft Date: 05 jul 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
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Litigation History:
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Review Withdrawn Fields: n/a
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TAGS: EFIN, JA
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20 Mar 2014
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